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November 15, 1996

EX PARTE

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket No. 96-112

In the Matter of Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming Services

Dear Mr. Caton:

Attached please find a copy of a letter sent today to Chairman Reed E. Hundt regarding the above-captioned proceeding. Please include this letter in the record of the proceeding.

Sincerely,

Janice Obuchowski

Janice Obuchowski

ADVANCED IDEAS
IN COMMUNICATIONS

cc: Chairman Hundt

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BROADBAND®
TECHNOLOGIES, INC.

November 15, 1996

Chairman Reed E. Hundt
Federal Communications Commission
1919 M Street, N.W.
Room 814
Washington, D.C. 20554

Re: CC Docket No. 96-112

In the Matter of Allocation of Costs Associated with Local
Exchange Carrier Provision of Video Programming Services

Dear Chairman Hundt:

Six months ago, the Commission began an extraordinarily important proceeding to determine how the costs of integrated broadband telecommunications networks should be allocated in the future between regulated and unregulated services. The outcome of this proceeding is critical to the realization of your vision for the U.S. telecommunications market. The rules the Commission adopts governing the allocation of these costs will determine, in large measure, whether advanced broadband telecommunications networks and services will become available to all Americans, and whether significant competition develops in the video programming distribution market. I understand that the Commission may be close to adopting an order in the proceeding, and that the Commission is considering implementing a new two-part formula to allocate these costs. BroadBand Technologies, Inc. wishes to express its strong support for the approach the Commission is considering adopting.

As we understand it, the proposed two-part formula being considered by the Commission would operate in the following manner: Henceforth, local exchange carriers (LECs) would be allowed to allocate to regulated services a portion of loop plant costs equal to the lesser of two amounts: (1) the amount of loop plant costs (and possibly other common costs) allocated to regulated services in a base year, adjusted annually by the price cap index; or (2)an amount that would vary based on the proportion of the LEC's customers who subscribe to unregulated services. Specifically, the number of customers subscribing to the LEC's regulated services would be divided by the combined total of customers subscribing to both regulated and unregulated services. The LEC would then multiply its loop plant costs and other common costs by that fraction, and allocate the resulting amount to regulated service. Thus, loop plant costs and other common costs would be allocated between

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regulated and unregulated services on the basis of the proportion of customers who subscribe to the unregulated services.

This balanced and forward-looking solution will preserve the incentives for telephone companies to build integrated broadband networks, while ensuring that regulated telephone service rates continue to recover only the costs of providing such services. BroadBand Technologies urges you promptly to adopt an order implementing this elegant and effective cost allocation solution.

The proposed two-part formula furthers all of the Commission's stated objectives in initiating the cost allocation proceeding, while avoiding the drawbacks and unintended consequences of the other approaches discussed in the Notice of Proposed Rulemaking and in certain parties' comments in the proceeding, including the use of fixed allocators. The two-part formula ensures that regulated telephone service rates recover no more than the costs a LEC would incur to provide telephone service on a stand-alone basis. In other words, it guarantees that regulated telephone service rates will not rise if a LEC decides to deploy advanced integrated broadband networks, that regulated service revenues will not be used to cross-subsidize the LEC's unregulated services, and that the additional costs incurred by a LEC to deploy broadband networks will have to be recovered from unregulated service revenues.

Moreover, the formula ensures that regulated telephone service subscribers will benefit from the economies of scope achieved through the use of a single platform to provide multiple services. They will benefit generally from the fact that these services will be offered in the most economically efficient manner (i.e., over an integrated broadband facility), and specifically through the application of the second part of the formula.

Furthermore, the two-part formula furthers fundamental Commission goals by promoting both the availability of advanced telecommunications networks and competition in the video market. It does so by preserving the incentives for LECs to deploy advanced integrated broadband networks and use these networks to compete vigorously in the video programming distribution market. Consistent with the principles underlying the Commission's price cap rules and incentive regulation generally, it allows the LECs to derive the benefits from providing services in innovative and economically efficient ways.

The approach now being contemplated by the Commission would, in the near- to medium-term, effectively ensure that the costs allocated to regulated telephone service will never exceed the costs allocated to it under the current system. These costs are appropriately allocated to regulated telephone service because they represent the "stand-alone" cost of a network used only to provide regulated telephone service. Telephone ratepayers are doubly protected -- by the proposed cost allocation formula, and by the Commission's price cap rules -- from the risk that they will be required to cover any of the costs a LEC incurs upgrading its network to deliver video programming and other unregulated services.

Consumers are the sure winners under this solution. BroadBand Technologies respectfully urges the Commission to act promptly in adopting the proposed formula. We are confident that completion of this critical proceeding along these lines will trigger a great wave of investment in integrated broadband networks, forming the central nervous system of America's 21st century economy.

Sincerely,

Salim A. L. Bhatia

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